

Technical Note
Gross Domestic Product, Third Quarter 2001 (Preliminary)
November 30, 2001

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; the note also provides some perspective on the estimates. Additional material will become available in the next several days; much of it will be posted to BEA's Web site <www.bea.doc.gov>. In a few weeks, the estimates will be published in BEA's monthly journal, the *Survey of Current Business*. The *Survey* also will provide a more detailed analysis of the estimates ("The Business Situation").

Real GDP (revised): Real GDP is now estimated to have decreased 1.1 percent (annual rate) in the third quarter of 2001 after increasing 0.3 percent in the second quarter. The revised estimate for the third quarter compares with a 0.4 percent drop shown in the advance estimate released a month ago. (Over the past 20 years, the revision between the advance and preliminary estimates -- without regard to sign -- has averaged 0.5 percentage point.) The 1.1-percent decrease in real GDP is the weakest showing for GDP since the first quarter of 1991, when it decreased 2.0 percent.

Real final sales of domestic product -- GDP less the change in private inventories -- decreased 0.3 percent in third quarter; the advance estimate had shown no change. Real final sales increased 0.7 percent in the second quarter. Inventories were drawn down for the third consecutive quarter.

Prices (revised): The price index for gross domestic purchases decreased 0.2 percent in the third quarter, 0.1 percentage point less negative than in the advance estimate. This index increased 1.3 percent in the second quarter. The downturn in prices reflected insurance payments resulting from the September 11th terrorist attacks, which were treated as a reduction in the average net premium paid for insurance services. Excluding the insurance-related price effects, the gross domestic purchases price index increased 0.6 percent in the third quarter.

Corporate Profits and GNP

The news release that presents the preliminary estimate of third-quarter GDP also presents BEA's first estimates of corporate profits and gross national product (GNP) for the quarter.

Corporate Profits: Profits from current production decreased 8.3 percent (quarterly rate) in the third quarter after decreasing 3.8 percent in the second. Third-quarter 2001 profits were 22.2 percent lower than in the third quarter of 2000. The current-production measure differs from profits as they are usually reported in corporate financial statements. It excludes non-operating items, such as special

charges and capital gains and losses, and is based on depreciation of fixed assets and inventory withdrawals valued at current cost, rather than at historical cost.

The change in profits was affected by several special factors. Third-quarter profits of insurance carriers were reduced by the payment of insurance benefits associated with the terrorist attacks; current information suggests that these payments, net of foreign reinsurance, amounted to about \$40 billion (annual rate). (In the national income and product accounts, benefit payments are recorded in the period in which the event occurs to reflect the full expected loss, regardless of when the payments are actually made.) Also, the profits of airlines reflect the subsidies (\$20 billion) received as part of the special airline bill passed by the Congress after the September 11th attacks. In the second quarter, profits had been reduced by about \$19 billion because of Tropical Storm Allison and other severe storms.

Real GNP: Real GNP decreased 0.9 percent in the third quarter after increasing 0.3 percent in the second quarter. GNP equals GDP plus incomes, mainly on investments, earned abroad by U.S. residents less similar incomes earned in the United States by foreign residents. Net receipts of income from the rest of the world increased \$4.2 billion in the third quarter after decreasing \$1.2 billion in the second.

Sources of Revision to Real GDP

The downward revision to third-quarter real GDP reflected the incorporation of both revised and newly available source data for several of the major GDP components:

- Inventory investment was revised down, mainly reflecting newly available Census Bureau inventory data for September.
- Exports were revised down and imports were revised up, mainly reflecting the incorporation of newly available Census Bureau goods data for September.

These revisions were partly offset by an upward revision:

- Equipment and software investment was revised up, mainly reflecting newly available software company revenue data for the third quarter and newly available Census Bureau aircraft shipments, exports, and imports data for September.

Table A shows both the BEA assumptions used for the advance estimate of GDP and the newly available and revised source data incorporated for the preliminary estimate for selected key series.

The Terrorist Attacks of September 11th

As was true of the advance estimate, this preliminary estimate reflects the economic effects of the terrorist attacks of September 11th. Most of these effects are reflected in the regular source data; for certain components BEA prepares adjustments for the effects that are not captured in the source data. Because most of the effects are embedded in the source data and cannot be separately identified, BEA did not attempt to quantify the total impact of the attacks on GDP or on other major aggregates.

The main economic effects of the events of September 11th captured in the NIPA's are the following:

- The reduction in real GDP growth for the third quarter reflected notable declines in consumer spending and in other components of GDP for September.
- The property losses are captured by a sharp increase in the consumption of fixed capital and a corresponding decline in net domestic product -- GDP less the consumption of fixed capital. These property losses had no immediate direct effect on real GDP, which is a measure of the production of goods and services.
- As explained above, the payments by insurance companies to cover the property losses reduced corporate profits.
- The decline in inflation, as measured by the gross domestic purchases price index, reflected a sharp reduction in the net premiums paid for insurance. In the NIPA's, insurance expenditures are defined as premiums net of benefits payable, and the large benefit payments resulting from the September 11th attacks were treated as a reduction in the average net price of insurance. The large insurance benefit payments did not affect real GDP.

For additional information on BEA's adjustments to components of GDP and gross domestic income, see "The Terrorist Attacks of September 11th as Reflected in the National Income and Product Accounts," in the November *Survey of Current Business*, pages 2 and 3; it is available on the BEA Web site at www.bea.doc.gov/bea/an/attack.pdf. Table B of this Technical Note revises the estimates of the adjustments that were shown in the November *Survey*.

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**Table A.—SOURCE DATA FOR THE ADVANCE AND PRELIMINARY
ESTIMATES OF GDP FOR THE THIRD QUARTER OF 2001**

This table shows the actual data used for the preliminary estimate of GDP for the third quarter of 2001. For these key series, actual data for September were not available in time for inclusion in the advance GDP estimate released on October 31, 2001, and BEA made assumptions for these source data. The numbers in brackets show the September values that had been assumed for the advance estimate. For most series, the data incorporated for August and, in some cases, for July were preliminary, and the numbers shown in brackets are the values used last month.

All series shown in the table are in billions of dollars, seasonally adjusted at annual rates, and are published by the Bureau of the Census.

		2001					
		Apr.	May	Jun.	Jul.	Aug.	Sep.
Private fixed investment:							
Nonresidential structures:							
Buildings:							
1	Value of new nonresidential construction put in place.....	220.6	211.7	210.8	210.7 {204.0}	195.9 {196.7}	195.2 {191.8}
Equipment and software:							
2	Manufacturers' shipments of complete aircraft.....	36.0	40.7	45.0	48.8	44.3 {45.1}	39.0 {34.4}
Residential structures:							
Value of new residential construction put in place:							
3	1-unit structures.....	244.8	246.8	247.5	248.2 {247.7}	248.7 {247.8}	247.3 {246.3}
4	2-unit-or-more.....	29.9	32.0	31.0	31.8 {31.6}	31.3 {30.8}	31.0 {30.6}
Change in private inventories:							
5	Change in inventories for nondurable manufacturing.....	-3.3	-7.6	-16.7	-8.5	-10.8 {-10.4}	-9.4 {-11.6}
5a	Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment..	-6.0	14.3	-26.3	-44.9	-11.4 {-20.1}	-18.0 { 4.4}
Net exports:							
Exports of goods:							
6	U.S. exports of goods, international-transactions-accounts basis.....	746.0	754.2	730.2	704.3	714.4 {713.5}	666.7 {675.8}
6a	Excluding gold.....	738.2	746.2	723.1	701.2	711.8 {711.0}	665.1 {673.5}
Imports of goods:							
7	U.S. imports of goods, international-transactions-accounts basis.....	1197.9	1167.5	1156.8	1134.3	1123.3 {1119.3}	1097.7 {1064.2}
7a	Excluding gold.....	1192.3	1159.7	1150.8	1132.4	1120.9 {1116.9}	1095.3 {1062.2}
8	Net exports of goods.....	-451.9	-413.4	-426.6	-430.0	-408.9 {-405.7}	-431.0 {-388.4}
8a	Excluding gold.....	-454.1	-413.5	-427.7	-431.2	-409.1 {-406.0}	-430.3 {-388.7}
State and local government structures:							
9	Value of new construction put in place.....	179.8	184.9	182.6	182.2 {188.1}	185.8 {187.3}	188.7 {187.3}

**Table B.--Adjustments to NIPA's for the Impact of the September 11th
Terrorist Attacks Not Captured by Regular Source Data, 2001:III**
Preliminary Estimate, November 30, 2001
[Billions of dollars at annual rates]

	Adjustment
Product side:	
Personal consumption expenditures.....	-20.6
Insurance*.....	-19.9
Motor vehicle insurance.....	-0.1
Homeowners insurance.....	-2.2
Workers' compensation.....	-7.1
Expense of handling life insurance and pension plans.....	-10.5
Other services.....	-0.7
Net exports.....	44.0
Imports of services*.....	-44.0
Government consumption expenditures and gross investment.....	0.0
State and local compensation.....	0.8
State and local general government insurance*.	-0.8
Income side:	
Wages and salaries.....	-2.5
Private.....	-3.3
State and local government.....	0.8
Proprietors' income with IVA and CCAdj.....	0.0
Consumption of fixed capital.....	-2.2
Insurance benefits received.....	2.2
Corporate profits with IVA and CCAdj.....	-38.8
Consumption of fixed capital.....	-53.8
Insurance benefits received.....	53.8
Benefits paid by insurance companies.....	-82.8
Payments received from foreign reinsurers.....	44.0
Consumption of fixed capital, total.....	62.1
Private.....	56.0
Government enterprises.....	6.1
Surplus of government enterprises.....	0.0
Consumption of fixed capital.....	-6.1
Insurance benefits received.....	6.1
IVA Inventory valuation adjustment	
CCAdj Capital consumption adjustment	
* Adjustment affects current-dollar estimates and prices; does not affect real GDP.	